



Updates From the Field TECHNICAL NOTES

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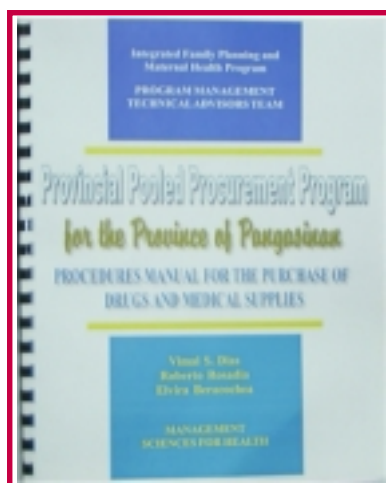
POOLED PHARMACEUTICAL PROCUREMENT IN PANGASINAN

Background

The Province of Pangasinan, in the northern part of the Philippines, is one of the country's largest and most heavily populated provinces. Like most Local Government Units (LGUs), Pangasinan has to deal with limited financial resources, shortages of drugs and medical supplies in most of its government hospitals, and high and varied prices for drugs across its municipalities and cities. Many district hospitals in Pangasinan do not comply with the Philippine National Drug Formulary (PNDF). For example, they purchase cough syrups and antidiarrheal preparations, although Executive Order No. 49 directs that the PNDF be followed for government procurement of drug products and for clinical management standards and protocols. Hospitals routinely resort to emergency purchases, even for vital and essential drugs. Moreover, pharmaceutical procurement has not been confined to the health sector. The Office of the Governor purchases drugs and medical supplies to distribute to indigent constituents who personally seek assistance from the Governor. Other sources of pharmaceuticals are local politicians, who sponsor medical missions using their "countryside development funds." The need to systematize pharmaceutical procurement has thus become a priority concern for Pangasinan, to

reduce costs and improve the availability of drugs in its hospitals.

In 1998, the Governor resolved to improve the quality of hospital operations, including drug procurement. While quality assurance activities were piloted only in the provincial hospital, reforms in pharmaceutical procurement encompassed all 14 hospitals managed by the province.



To get the reform activities off to a good start, Governor Victor Agbayani sought technical assistance from Management Sciences for Health (MSH) to set up and implement a pooled pharmaceutical procurement system. With assistance from MSH, the provincial government organized a series of meetings with hospital chiefs, General Services Office (GSO) staff, hospital staff, and suppliers

to draft a provincial pooled procurement system. MSH conducted interviews with key LGU officials and personnel on the LGUs' standard operating procedures that were important to developing the new system.

How the New Procurement System Works

1 Hospitals prepare their annual procurement plan.

The process starts in June, when hospitals prepare their annual procurement plans. Department heads prepare their respective procurement plans based on an analysis of leading causes of morbidity and mortality, treatment protocols, and the PNDF. MSH trained the staff of all 14 hospitals in the province to use two tools for setting priorities for purchasing drugs: VEN analysis and ABC value analysis.

VEN (vital, essential, nonessential) analysis classifies drugs into two or three categories according to their therapeutic value or to how critical the drug is for treating common diseases. The hospital staff determine the cases most commonly seen and treated at their respective facilities through their regular morbidity and mortality reports. They then determine how these cases



MATCHING GRANT PROGRAM
Department of Health

ANNUAL PROCUREMENT PLAN

Type of Plan	Name of Department or Office				Plan Control No. _____ Plan Amount: _____				Page ____ of ____ Pages Date Submitted: _____				
Description	Unit	Unit Price	Quantity	Total Amount	DISTRIBUTION								
					1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		
					QTY	Amount	QTY	Amount	QTY	Amount	QTY	Amount	
TOTALS													
NOTE: 1. The above procurement plan is in accordance with the objectives of the office. 2. Funds have been earmarked for this purpose.					PREPARED BY: _____ CERTIFIED CORRECT: _____								

are treated based on their standard clinical guidelines and protocols. Finally, they classify the drugs to be used in treatment as vital, essential, or non-essential, and give priority in procurement and setting of buffer stocks to vital drugs.

ABC analysis assembles data from recent or projected procurements to determine where money is actually being spent, allowing managers to focus first on high-cost items when considering ways to reduce procurement costs. The items procured are ranked according to their annual value in Philippine pesos, from highest to lowest, and cut-offs are made as guides for decision-making. The entire procurement is divided into three categories: A, B, and C. Items in the A category are those that make up 75-80% of the total cost. Items in the B category represent the middle 10-15%, and those in the C category represent about 10%. Class A products are few

but account for a very large proportion of the cost of drugs; hence, the highest priority should be given to their management.

The Supply Officer consolidates procurement requests based on the department heads' submissions and procurement regulations, while the pharmacist processes the requests with respect to drug specifications. The Hospital Therapeutic Committee reviews annual procurement plans for pharmaceuticals and other medical supplies before they are finalized.

2 Hospitals submit their annual procurement plans.

In July, hospitals submit two sets of their annual procurement plans: one copy to the Provincial Therapeutic Committee (PTC) and the other to the General Services Office. The PTC reviews the plans for compliance with the PNDF, checks the specifications for the bid, and

forwards the approved plans and specifications to the GSO. Inaccurate or inadequate APPs are returned to the concerned hospital(s) for correction. Revised annual procurement plans are resubmitted to the PTC for review.

3 The GSO undertakes the bidding process.

The GSO consolidates the plans and specifications from the 14 hospitals to arrive at aggregated quantities for each product. These aggregated quantities represent what will be procured, which is specified in the tender documents as the bid quantity. The bid documents also provide a description of each product---preparation, formulation, and so on.

The GSO entertains offers from prequalified suppliers. All suppliers interested in participating in the procurement process are expected to prequalify every year for the products they want to sell. Prequalification is

For the Province of Pangasinan

Supplier Name:

Tender No. _____

For Period: _____ to _____

Bid No. : _____

[illegible]

Signature of Bidder/Authorized Representative

Name and Address of Bidder/Supplier

Tel. No. _____

Fax No. _____

and the Bureau of Food and Drugs.

The GSO prepares and processes all tender documents, but selection of winning bids rests with the Provincial Prequalification, Bids, and Awards

Committee (PBAC). The PBAC follows strict procedures in accepting, opening, and recording bids. Members of the PBAC select the primary and secondary suppliers for a given product based on information about price, lead

For Year.....Procurement Cycle

Date Prepared:

Prepared by:

[illegible]

time, product quality, and past supplier performance.


When the adjudication process is complete, the GSO sends a notice to all hospitals announcing the winning suppliers and their prices for all tendered products. A copy is also sent to all suppliers who participated in the bidding. The entire bidding and award process is completed by the end of the year.

4 Hospitals prepare and submit purchase requests.

Hospitals are required to prepare and submit quarterly purchase requests. Purchase requests are based on the hospitals' approved annual procurement plans, inventory management spreadsheets, and availability of funds.

A photocopy of a bank statement or deposit slip from the hospital accompanies purchase requests to validate that funds are available for requisitions submitted. Funds for medical supplies come from an LGU's appropriation for Maintenance and Other Operating Expenses, while funds for the procure-

ment of drugs come from the Trust Fund, which is financed by the sale of drugs. The processing of purchase requests for medical supplies takes longer because funds for these supplies depend on the quarterly release of the



**PURCHASE REQUEST
FOR QUARTERLY ORDERS**

Purchase Request No. _____ Date _____

To: General Services Office, at Lingayen, Pangasinan Province

From: Community/Medicare/District Hospital at _____ Customer Code _____

Procurement Period _____ Expected Date of Delivery _____ Deliver to _____

Value of Order: P _____ Funded by: _____

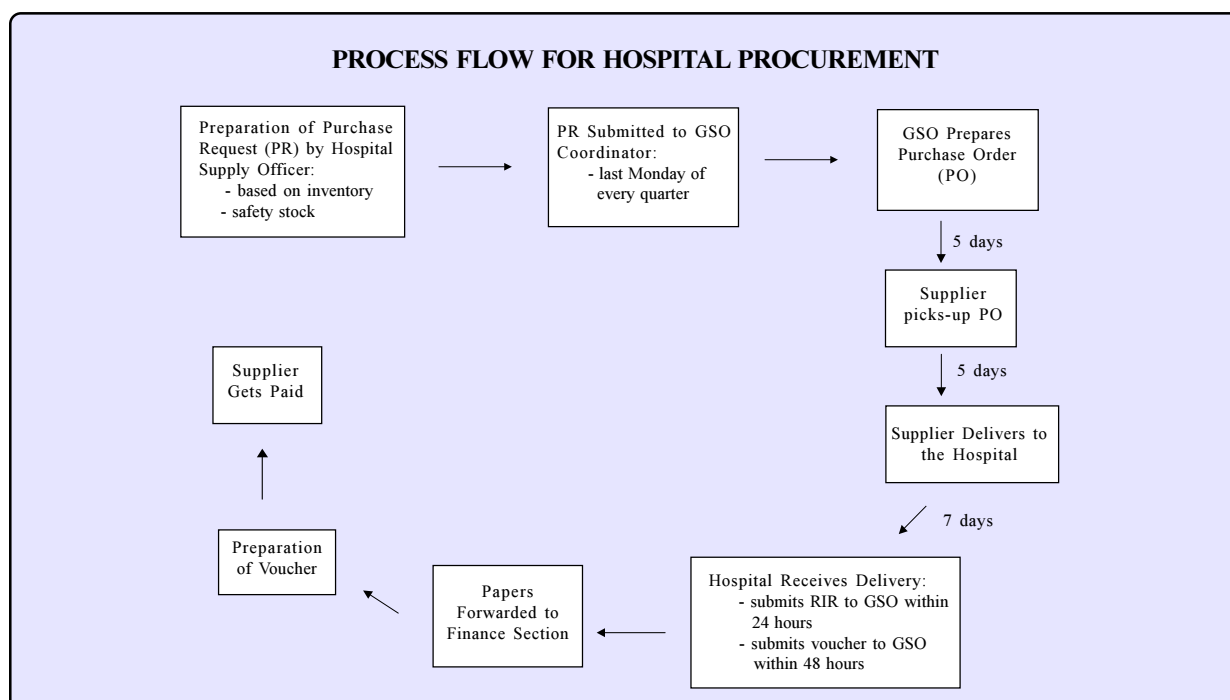
I hereby certify that the supplies listed in attached order form are necessary for maintaining stocks of essential drugs, and for official use at the abovementioned health facility.

Purchase Request Prepared by Pharmacist/Supply Officer _____ Date _____	Chief of Hospital _____ Date _____
Local Chief Executive _____ Date _____	

CERTIFICATION

(1) Appropriations Available: _____	(2) Estimated Expenditure Obligated: _____	Funds Available: _____
Budget Officer _____	Chief Accountant _____	Provincial Treasurer _____

From Whom Purchased	Order		Qty.	Cost	Unit
	Number	Date			



internal revenue allotment to LGUs from the Government of the Philippines. However, if hospital revenues are high, as reflected in the bank statement, processing may be expedited.

The hospital's Supply Officer prepares two sets of purchase requests, one for those to be charged to the General Fund (medical supplies) and another for those to be charged to the Trust Fund (drugs). The quarterly requirement for a particular product is determined using the following formula:

Quarterly request = maximum stock level (MSL) – (stock on hand + stock on order)

where MSL = average monthly consumption (AMC) x (procurement lead time in months + review period in months + buffer stock in months)

To illustrate: If we assume that lead time = 0.5 months, review period = 3 months, buffer stock = 1 month for Class V, and AMC = 100 units, then MSL = $100 \times (0.5 + 3 + 1) = 100 \times 4.5 = 450$ units.

If the quantity on hand at the time the purchase request is placed is 200 units, and stock on order is 100 units, the order quantity = $450 \text{ (MSL)} - (200 + 100) = 150$ units. Hence, 150 units is the quantity to be requested from the GSO.

All purchase requests are submitted to the GSO. To facilitate the processing of purchase requests, the GSO has assigned four coordinators, each of whom handles all requisitions for a specific cluster of hospitals. The coordinators advise the Hospital Chiefs or Supply Officers in their respective clusters about the deadlines for submitting purchase requests. Reminders are given at least four days before the deadlines. The coordinators keep a record of all communications and

follow-ups with the hospital, indicating dates, time, and persons spoken to.

5 The GSO consolidates the purchase requests and prepares purchase orders.


The GSO consolidates the purchase requests from the 14 hospitals and prepares one purchase order for each supplier and each hospital for accounting purposes. For example, if a product requested by all 14 hospitals will be obtained from the same supplier, the supplier will receive 14 different purchase orders for the product. The GSO issues the purchase orders to the first supplier selected by the PBAC, and to the second supplier, in case the first supplier is unable to deliver. The purchase orders, signed by the Governor, are ready for the winning suppliers to pick up five working days after the requests are received.

6 The suppliers pick up the purchase orders.

The suppliers are given a maximum of five working days within which to pick up their purchase orders. The hospital cluster coordinators remind the suppliers to pick up their purchase orders three days before the deadline and record all follow-up calls and faxes. The hospitals, in turn, are informed when the purchase orders are picked up.

7 The suppliers deliver the products and the hospitals inspect and receive deliveries.

The suppliers have up to seven working days from the receipt of purchase orders to deliver the products specified. All deliveries are made directly to the hospitals. If suppliers fail to deliver on the appointed date, the hospital Supply Officer informs



RECEIVING AND INSPECTION REPORT

NAME OF HOSPITAL _____

IN THE PROVINCE OF PANGASINAN

RIR# _____	Supplier's Name: _____
Invoice No. _____	PR# _____
P.O. # _____	Date Received: _____

Number of shipping cartons received: _____

Certify that from external inspections, all containers appear to be suitable and without damage except as follows:

Certify that all items on the invoice and the purchase order mentioned above were received and, after inspection, released for transfer to medical store except as follows (or marked on the invoice):

_____ Pharmacist	_____ Date	_____ Supply Officer	_____ Date
---------------------	---------------	-------------------------	---------------

the cluster coordinator so appropriate actions may be taken.

Hospitals receive only products that have corresponding purchase orders prepared by the GSO and that meet the specifications in the purchase order. The Supply Officer and the resident auditor inspect medical supplies. Deliveries of drugs are inspected by the pharmacist and the resident auditor.

The Supply Officer prepares the Receiving and Inspection Report, signed by the Supply Officer and the end-user (pharmacist or medical technologist), and submits a copy to the GSO within 24 hours from receipt of deliveries. The Supply Officer likewise prepares the corresponding voucher, signed by the hospital chief, accountant, and auditor and forwards it to the GSO within 48 hours.

If the products delivered are unacceptable, the end-user completes a Product Problem Report and submits it to the Hospital Therapeutic Committee and the GSO for notation and action. The Hospital Therapeutic Committee performs one essential quality control function: reporting any drug preparation suspected to be of poor quality. It also regularly sends drug samples to the Bureau of Food and Drugs for analysis.

8 The LGU processes payments to suppliers.

The LGU pays suppliers on a quarterly basis against actual deliveries made to a particular hospital, provided that supporting documents, such as the purchase request, purchase order, advice of allotment, delivery receipt, Receiving and Inspection Report signed by the Hospital Inspection Committee, and voucher, are complete. All documents pass through the different offices of the Finance Department. The Budget Office certifies that funds are available; the Accounting Office, which conducts a pre-audit, obligates the

funds, processes the voucher, and prepares advice of release to the bank; and the Treasurer's Office prepares and releases the check.

Results

With implementation of the pooled procurement system, the Province of Pangasinan was able to procure drugs and medical supplies at much reduced prices, enabling the province to realize sizeable savings and revenues. A baseline survey conducted in 2000 showed that the new pooled procurement system had reduced prices of a set of indicator drugs and medical supplies by an average of 51%, compared to corresponding prices paid by the GSO in 1999 using canvass procurement (also known as competitive negotiation) where the buyer approaches a limited number of selected suppliers (typically at least three) for price quotations (see Table 1). The savings achieved would be higher

if we account for inflation. The gains would also be higher if the prices were in US dollars, considering the recent depreciation of the Philippine peso.

Hospitals are now able to procure needed pharmaceuticals with limited resources and are assured of having stocks of essential drugs every quarter. The quality of drugs and medical supplies is also assured because only suppliers accredited by the Department of Health are allowed to participate in the bidding process. Clients, therefore, are assured of cheaper and better-quality products. Hospital Chiefs regard this as an opportunity to use savings from their Maintenance and Other Operating Expenses budget to purchase new equipment, renovate their hospitals, or buy nonessential but fast-moving products, such as vitamins and reagents for laboratories.

PRODUCT PROBLEM REPORTING FORM		
Hospital name: _____	Complainant: _____	Date: _____
Product Name, Strength: _____		
Dosage Form: _____		
Manufacturer/Brand name: _____ Lot/Batch Number: _____		
Current Stock Level: _____		
Use this space to describe the specific problems experienced in detail. Some common problems are listed in the page below, to serve as a guide.		
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<div style="display: flex; justify-content: space-between;"> Samples included Yes <input type="checkbox"/> No <input type="checkbox"/> </div>		
<div style="display: flex; justify-content: space-between;"> <div style="width: 30%;"> <input type="checkbox"/> No drug action <input type="checkbox"/> Late delivery <input type="checkbox"/> Short life </div> <div style="width: 30%;"> <input type="checkbox"/> Delayed action <input type="checkbox"/> Poor Packaging/labelling <input type="checkbox"/> Equipment incompatibility </div> <div style="width: 30%;"> <input type="checkbox"/> Poor Stability <input type="checkbox"/> Patient Acceptance </div> </div>		
Submitted by: _____		Noted by: _____



Meanwhile, doctors have learned how to prioritize pharmaceuticals and determine the quantity of buffer stocks using VEN analysis to reduce the incidence of stock-outs of life-saving drugs. The GSO has used ABC value analysis as a tool for determining and monitoring procurement of Class A

products. Properly managed procurement of these products offers the biggest potential for cost savings.

Other benefits of the system are (1) revitalization of the Hospital Therapeutic Committees, (2) avoidance of expensive and frequent emergency purchases,

(3) less paperwork for both hospitals and the GSO, (4) clear lines of responsibility during the procurement process, making the flow of activities faster and smoother, (5) good results of the new system have improved people's attitude toward management interventions, (6) introduction of



**Table 1. COMPARISON OF PRICES OF SELECTED PHARMACEUTICAL SUPPLIES
AND MEDICINES BEFORE AND AFTER POOLED PROCUREMENT
Province of Pangasinan**

No.	Product Description	Strength/ Size	Dosage Form	Unit	Before (1999 GSO Unit Price: PhP)	Date of Purchase	After (2000 GSO Pooled Procurement Price: PhP)	Pooled Procurement Price as a % of GSO Unit Price
1	Absorbent cotton	400 gms	-	Roll	567.50	11/11/99	72.00	12.69
2	Adrenaline (epinephrine)	1 mg/ml	Ampule	Ampule	35.00	12/10/99	NB	-
3	Aluminum mag. hydrox.	225+200/5ml	Susp.	60 ml bottle	59.00	4/10/99	45.00	76.27
4	Aminophylline	250/10 ml	Ampule	Ampule	55.00	12/29/99	20.40	37.09
5	Ampicillin	500 mg	Vial	Vial	35.00	12/9/99	27.00	77.14
6	Chromic catgut atraumatic	Needle 3-0	Cutting	Pack	11.40	12/2/99	7.50	65.79
7	D5-0.3 NaCl	500 ml	Bottle	Bottle	18.00	12/7/99	17.00	94.44
8	D5-LRS	1000 ml	Bottle	Bottle	19.00	12/7/99	16.90	88.95
9	Diazepam	5 mg/2 ml	-	Ampule	85.00	6/10/99	45.00	52.94
10	Disposable syringe	5 ml	-	Pieces	9.98	12/29/99	1.85	18.54
11	Methyergometrine maleate	200 mcg/1 ml	Ampule	Ampule	50.00	12/10/99	14.10	28.20
12	Furosemide	10 mg/ml	Ampule	Ampule	35.00	12/16/99	11.89	33.97
13	Ferrous sulfate+folic acid	200 mg	Tablet	Tablet	3.70	12/7/99	0.74	20.01
14	LRS	1000 ml	Bottle	Bottle	19.00	12/7/99	17.00	89.47
15	Metronidazole	250 mg	Tablet	Tablet	ND	11/26/99	9.64	-
16	Nifedipine	5 mg	Tablet	Tablet	9.50	9/13/99	1.85	19.47
17	Paracetamol	500 mg	Tablet	Tablet	1.10	12/23/99	0.30	27.27
18	Salbutamol	2 mg	Nebule	Nebule	45.00	10/7/99	49.95	111.00
19	Surgical gauze	-	-	Roll	1,798.00	12/19/99	746.00	41.49
20	Surgical gloves	Size 7 - Pair	-	Pieces	9.80	12/8/99	2.64	26.94
Average: Pooled procurement price as a % of GSO unit price								51.2

NB - No Bid
ND - No Data

common inventory control systems in all 14 hospitals, which formalizes decision-making about what, when, and how much to order, and (7) development and introduction of a new set of drug supply contracts and bidding documents.

There is still room for improvement. The GSO needs to fully understand hospital operations, just as Hospital Chiefs need to understand the requirements of the GSO, for the pooled procurement process to function smoothly. On the one hand, the GSO should apprise the Provincial Thera-

peutic Committee about problems hospitals have encountered with the purchase requests. The hospitals, on the other hand, need to provide regular updates on new drugs and related developments during Provincial Therapeutic Committee meetings. Special sessions can be organized for this purpose with members of the GSO.

Steps also need to be taken to avoid problems experienced during the early stages of implementation. These problems include late deliveries (two weeks on average); unacceptable or unsatisfactory deliveries (lot or batch numbers

are different from what the suppliers specified, or drugs' expiry date is within six months); noncompliance or nondelivery by the lowest bidder; and nonsubmission or late submission of purchase requests by some hospitals.

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